THE RAILWAY POLICY OF CANADA, 1849–1867. II.

III. DIFFICULTIES AND LESSENED CONSTRUCTION.

The commercial activity of the time was most marked in the year 1856 when the imports into Canada amounted to £13,894,037. The prosperous conditions stimulated speculation, and excessive railway construction. The population and wealth of Upper Canada, in which the greatest railway expansion was taking place, were increasing rapidly. In the period 1854–1858 the population increased by 20 per cent., from 1,066,000 to 1,295,072, while the assessed valuation increased upwards of 30 per cent., or from £48,000,000 to £62,000,000.[1] The desire for development and the fervor of railway projection were such that it was desired to expedite the already rapid railway construction. As early as 1849 an act to authorize the formation of road companies had been passed.[2] Under this act a company was permitted to be incorporated, without a special act, by subscribing 6 per cent. of its stock and filling out an official statement of the names of the directors, shares, and amounts held. There had to be at least five parties to the agreement. The operation of the act was extended so as to apply to railways, and one railway, the Buffalo, Goderich and Brantford, was incorporated under it. The act was soon repealed. In 1855 the Standing Committee on Railroads, Canals, and Telegraphs expressed the opinion that the existing system of granting special charters was objectionable both because it prevented competition and because it had attached to it the imputation of partiality. It was therefore recommended that a general railway law be passed. The provisions of the legislation recommended

[1] See speech of Hon. Mr. Cayley on *Customs and Excise*, *Scrap Book Debates*, 1858 p. 126.

[2] *Statutes of Canada*, 1849, chap. 84. "An act to authorize the formation of joint stock companies for the construction of roads and other public works in Upper Canada."

bear a marked resemblance to those contained in the New York general railroad law of 1850.[1] In the provisions of the legislation recommended it was proposed that any number of persons, not less than twenty-five in number, might, on the subscription of an amount equivalent to at least £5000 per mile of the proposed railway, and on the payment into some chartered bank of at least 10 per cent. of the amount so subscribed, be incorporated by a proclamation of the governor-in-council. An interesting provision is that which requires that any company so incorporated must be for at least two thirds of its length not less than ten miles distant from any other railway then in operation or in course of construction, unless it is separated from such other railway by a navigable river. The obvious intention is to thereby maintain competition through the prevention of consolidations. The companies to be created under this general law were to be subject to the regulative features of the laws already passed, together with such further amendments as might be added.[2]

It was during the period from 1853 to 1856, when commercial activity was most marked, that the great railway activity took place. Although the completion of some of the projects already undertaken took up until 1860 the main lines proposed were completed by 1856. Almost all of the railways of the period had been chartered by 1853.[3] The immediate effect of the cessation of construction was disastrous.[4] The payments of the railway contractors had habituated the people to a free flow of money; there now came a restriction. At the same time the province had been rapidly increasing its expenditures

[1] A condensed statement of the contents of the New York legislation will be found in an article by MR. SIMON STERNE in *Lalor's Cyclopedia of Political Science*, vol. iii. p. 501.

[2] Tenth report of the Standing Committee on Railroads, Canals, and Telegraph Lines, 1855.—*Journals of Legislative Assembly of Canada.*

[3] Between 1823 and 1863 only three new charters were acted upon, namely, the Preston and Berlin, the Three Rivers and Arthabaska, and the Peterboro and Chemung Lake. See *Eighty Years of Progress*, etc., p. 192.

[4] Cf. *Canada 1849 to 1859*, GALT, p. 35.

on account of aid given to bettered means of transport. In 1854 there had been a surplus of revenue over expenditure of two million dollars. In 1858 the excess of expenditure over revenue amounted to 2.5 million dollars.

The farmers who had shared in the prosperity of the time felt keenly the altered conditions. The railway construction had afforded a ready means of sale for their produce, and had enabled them to obtain high wages for their surplus labor. The Crimean War, with its interruption of the commercial activities of Europe, had also opened up a new market for Canadian wheat. Confident that the good times would continue the Canadian farmer, emulating the English farmer of the Napoleonic period, had increased his expenditures. The changed conditions pressed with especial rigor on the farming class. In 1857 the harvest was an almost total failure. The local troubles were intensified by the wider commercial crisis which began in the United States in September 1857. The effect of this was that for a couple of years a period of depression existed in Canada and all enterprise was checked.[1]

The railways which had already begun to feel the effects of speculative development, experienced the full force of the altered times. As has been seen difficulties beset the Grand Trunk from its very beginning. One of the most fertile causes of embarrassment was the spirit of speculation which prevailed during the period of the greatest railway activity. The increased demand for live stock, timber, and all kinds of materials raised prices from 30 to 50 per cent. In Upper Canada the wages of skilled labor were from 30 to 50 per cent. higher than in Lower Canada.[2] As a consequence of this the contractors who had tendered for sections of railways in a less speculative period, found that their estimates would not now afford them any profit; they, therefore, threw up their contracts and the sections had to be relet at advanced rates. The railways had also been hampered in their construction by the Crimean

[1]Cf. BRECKENRIDGE, *The Canadian Banking System*, p. 122.

[2]Cf. *The Economist*, February 2, 1856.

War and its effects on the money market. Money which was formerly obtainable at 2 per cent. could, during the war period, be obtained only at 7 per cent.[1] The war also raised the price of railway supplies. In the rush of railway development sufficient care had not been taken in construction work. In surveying the Great Western more attention had been devoted to obtaining a cheap right of way than to obtaining a right of way through a territory which would have sufficient local traffic to assist in the maintenance of the line. In various instances stations were placed at a considerable distance from the towns they were supposed to serve because the sites and the right of way could be obtained more cheaply.[2] The same statement applies to the Grand Trunk.[3] The method of construction adopted on the Great Western was not sufficiently economical. It is estimated that the method adopted increased the construction charges by 50 per cent.[4] When the Grand Trunk Railway was being constructed special stress had been laid on the claim that the high charges of operation on the American railroads were due to the flimsy nature of construction on these roads, and that the superior nature of the construction on the Grand Trunk coupled with the fact that the railway was under the management of an English company would result in a saving of from 15 to 20 per cent. in operating charges.[5] The prospectus issued in 1853 had estimated the operating expenses at 40 per

[1] See Speech of Hon. A. T. Galt on the bill to aid the Grand Trunk, *Scrap Book Debates*, 1857, pp. 70, 71. See also *Statements, Reports and Accounts of the Grand Trunk Railway of Canada, laid before the Legislative Assembly April 23, 1857*, No. 22, p. 88.

[2] Cf. *Eighty Years of Progress*, p. 234.

[3] *Report of the Legislative Commission appointed to inquire into the affairs of the Grand Trunk*, 1861, pp. 30, 44.

[4] Some details bearing on this point will be found in the First Report of the Commissioners of the Intercolonial Railway, 1870.—*Sessional Papers of Canada*, No. 13, appendix B, p. 24.

[5] This view was expressed by Sir Francis Hincks in 1852 in a letter to the Railway Committee. Cf. also statements of Mr. Jackson, of the firm of Peto, Brassey & Betts, in his correspondence with Earl Grey.—*Sessional Papers of Canada*, 1852–3, appendix Z.

cent.[1] The management of the road did not seem to be acquainted with its real condition. In 1858 Mr. Blackstone, the managing director, reported that the road was in excellent condition and that "the line was of a character in point of durability and finish of works quite unexampled on the American continent." The permanent structures were said to be of the most solid character and the plant of the most approved character and in the best working order.[2] The Special Investigating Committee, of 1861, whose report has already been referred to, found that the railway was in poor shape. The English railway contractors, unaccustomed to the rigors of a Canadian winter, laid down rails that would not stand the frost. The road as at first constructed was, in reality, very rough and had very sharp curves. During the first winter of operation forty miles of roadbed were constructed without ballasting, and this section had to be closed for some time when the spring thaw set in.[3] Even if the road had been characterized by the solidity of construction which was asserted as a possession of the road it does not necessarily follow that the expense thereby created was good policy. The contemporary method in the United States of laying down roads of cheap construction, improvements being made from time to time as the improved state of business warranted it, was much better adapted to the needs and to the development of the resources of a new country. But the boast about solidity of construction was not properly founded. Whatever view the cost of construction may have seemed to warrant it is undoubtedly true that there was jobbery in the work. As early as 1859 the rails were in bad

[1] The following statement was contained in the prospectus of 1853 and indicates the data upon which the calculations were based:

SUMMARY OF PROBABLE REVENUE.

On 1112 miles of railway at an average of about £25 per week	£1,679,660
Deduct working expenses at 40 per cent.	£ 591,864
Net	£ 887,796

See appendix to *Statements, Reports, and Accounts of the Grand Trunk Railway Company of Canada, laid before the Legislative Assembly April 23, 1857*, p. 14.

[2] *Report of the Managing Director*, 1858, p. 29.

[3] PENNINGTON, *op. cit.*, p. 86.

shape owing to the fact that the quality of the iron originally employed was inferior.[1] A minor detail may also be cited as bearing on the lack of flexibility in the management. With characteristic clinging to English methods one of the first things done by the management was to introduce a number of six-wheeled English locomotives. These were entirely unsuited to the condition of the roadbed, and it was found necessary to obtain American locomotives which were better suited to sharper curves.[2] Once the railway was under way it was found that instead of operating the road at a charge of 40 per cent. the cost of operation was 85 per cent.[3]

The Great Western throughout this period occupied a position of antagonism to the Grand Trunk. The former soon obtained a connection with the American lines at both ends of its line. The competition which the Grand Trunk had to face on this account was wasteful and ruinous.[4] The two roads paralleled each other for a distance of 230 miles.

The Grand Trunk had also to face other competition. When the main line was surveyed the route chosen lay near the leading watercourses. The line from Montreal to Toronto lay near the lake. The railway at once became a competitor for the existing lake traffic with the odds in favor of the lake vessels. Had the railway been laid at some distance inland it would have

[1] *Report of the General Manager of the Grand Trunk for 1859*, subhead "Report from the Engineer's office of the Central Division," October 31, 1859, p. 21.

[2] PENNINGTON, *op. cit.*, *loc. cit.*

[3] *Report of the Commission appointed to enquire into the affairs of the Grand Trunk*, 1861, pp. 37, 38. By 1863 the working expenses had been reduced to 63 per cent.

[4] An agreement for a division of traffic was entered into by the two lines in 1859. This was declared to be illegal by Parliament. See *Report of the Vice President of the Grand Trunk for 1859*, p. 3. In 1862 a bill for the amalgamation of the two companies was dropped on the second reading; see THOMPSON'S *Mirror of Parliament*. In course of time the Vanderbilt interests for which the Great Western had been a feeder, obtained their own connections; the Great Western then lost its position of advantage and felt more keenly than hitherto the competition of the Grand Trunk. With reference to the attitude of the Great Western to the Grand Trunk see *Report of the Special Committee appointed to enquire and report with reference to the condition, management, and prospects of the Grand Trunk Railway 1857; Journals of the Legislative Assembly of Canada 1857*, appendix No. 6; evidence of Mr. A. T. Galt, p. 23.

resulted in the opening up of the interior portions of the country and the development of a local traffic which would have been more valuable than that which was obtained in competition with the lake vessels. But there was not only the lake competition, there was also the river competition. For 500 miles the railway lay alongside one of the most magnificent stretches of waterway in the world, and the railway found the competition difficult to face.[1] Between Montreal and Quebec it was admittedly impossible for the railway to compete for the heavy traffic; this was conveyed by water, a distance of 180 miles, for $1 per ton. If the road attempted to recoup itself by charging heavier rates on grain in the winter time, it simply resulted in the grain being stored up until the approach of springtime rendered the river navigation available once more.

The rigidity of the management militated against the success of the Grand Trunk. In following out its plan of extension sufficient care was not taken to investigate the commercial value of the lines whose acquisition was contemplated. The Atlantic and St. Lawrence, which gave the railway a winter port at Portland was acquired in 1853.[2] It was agreed that a yearly rent of $108,900 should be paid and the lease was to continue for 999 years from July 1st, 1853. Experience soon showed that the rent promised was excessive. The road had heavy grades and sharp curves. At the same time its local traffic was but scanty. Although it was assumed, when the road was acquired, that it was in good condition it was found necessary to expend $1,675,197 in improvements.[3]

The stockholders of the Grand Trunk saw in the presence of government directors on its board an evidence of the intention

[1] *Report of the General Manager of the Grand Trunk for 1859*, p. 10. The water rate Montreal–Toronto was from $2 to $3 per ton, while the Grand Trunk Railway rate was $3.50 per ton, *ibid.*

[2] At the time this line was acquired the Grand Trunk had not the power to make such an agreement. Pending the obtaining of such power the road was placed in the hands of Messrs. Ross, Holmes, and Jackson as trustees. As early as 1852 John A. Poor had suggested to the English contractors the advantage of obtaining a Portland connection. POOR, *op. cit.*, p. 71.

[3] POOR'S *Railroad Manual*, 1868–9, p. 186. Cf. *Eighty Years of Progress*, p. 208.

of the government to guarantee, in so far as it was able, the success of the road. The public, on the other hand, became weary of the constant demands made by the railway for aid. From 1856 onwards numerous petitions were received from municipalities praying that no further aid should be given to the enterprise. Various attempts at investigation of the affairs of the company were negatived by the unwillingness of the railway and of the government.[1] The year 1857 brought the railway once more before the legislature as a suppliant for aid. The company had anticipated that the sparse returns of the eastern sections of the road, running through a tract of land which was but little developed, would be counterbalanced by the western traffic. Experience now led to the conclusion that the returns from the latter section would not for a long time yield more than the interest on the money invested. The company stated that in the existing conditions of the London market it was useless to attempt to raise money in England.[2] When the railway had been permitted, in 1856, to issue £2,000,000 of preferential bonds the government lien had been postponed. The railway found itself hampered by the existence of the government lien and asked for such an extension of the time, during which the province would undertake the payment upon its bonds, as would be equivalent to a relinquishment of the government claim.[3] The government found that once having aided the railway it was necessary to continue; things had arrived at such a pass that the government had to choose between rendering further aid to the railway and undertaking the construction itself.[4] The province did not follow the proposition of the railway, but postponed its claim until the earnings and profits of the railway should be sufficient to pay (1) charges of maintenance and operation; (2) rent of the

[1] Cf. *Journals of the Legislative Assembly*, 1857, p. 621.

[2] *Accounts, Statements, and Reports of the Grand Trunk laid before the Legislative Assembly March 20, 1857*, No. 22, pp. 61–68.

[3] *Ibid.*

[4] See memorandum of the finance minister contained in *Sessional Papers of Canada*, 1868, No. 61.

Atlantic and St. Lawrence and interest on the bonds of the Grand Trunk exclusive of those held by the province; (3) a dividend of 6 per cent. on the paid up capital of the company.[1] The government was unwilling to look facts in the face, and it was therefore contended that the arrangement was simply a temporary one. It was asserted that within five or six years the line would have no difficulty in realizing 6 per cent.[2] It was contended by the opposition that the arrangement was tantamount to a relinquishing of the government lien; experience has justified this contention. In return for this concession the line was required to maintain the road in proper condition, complete the undertakings mentioned in the Act of 1856, and supply the road with sufficient plant, rolling stock, and appliances to operate it in an efficient manner.[3] The presence of government directors on the board of the road had been embarrassing not only to the government, but also to the railway, since it brought up many political complications and at times hampered the management of the railway.[4] The commission which investigated the affairs of the railway in 1857 found that the presence of these directors on the board had aroused much ill feeling towards the road. Owing to the fact that the government lien had been virtually given up there no longer existed a relative justification for the presence of these directors; and the section of the Act of 1852 which authorized the presence of government directors was repealed.[5] It was intended that this should mark the termination of the granting of aid to the railway.[6]

The difficulties of the time did not affect the Grand Trunk

[1] *Statutes of Canada*, 1857, chap. 11; see also *Journals of the Legislative Assembly of Canada, 1857*, p. 353.

[2] Cf. Speech of Hon. Mr. Cartier, *Scrap Book Debates*, 1857, p. 71.

[3] Amendment to the main motion adopted in the course of debate.

[4] Cf. Speech of Hon. Mr. Cayley on the second reading of the bill, *Scrap Book Debates*, 1857. This position is also taken in a letter written by Mr. Benjamin Holmes, who was appointed a member of the Canada Board, to G. C. Glynn, M.P., in August 1856. See appendix No. 6 to the *Report of the Special Committee appointed to investigate . . . . the Grand Trunk . . . . 1857*.

[5] *Statutes of 1857, loc. cit.*

[6] Speech from Throne, 1858.

alone. In 1856 the Buffalo and Goderich, which was engaged in completing its line between Paris and Goderich, was forced to suspend operations on account of embarrassment.[1] In the same year the Grenville and Carillon, which had for two years operated a section of twelve and a half miles, became so embarrassed that it was empowered to place the road under the control of the wardens of the counties of Ottawa and Argenteuil.[2] But it is with the railways aided by the government that we are most concerned. The St. Lawrence and Atlantic, to which advances had been made, under the amended Guarantee Act, had been incorporated with the Grand Trunk. The other railways which demand attention are the Northern and the Great Western, to both of which advances had been made. An advance of £475,000 had been made to the Northern.[3] On January 1, 1856—the road had only been opened in 1855—the railway defaulted in payment of interest on the government advance.[4] By 1859 the road was in a condition of absolute insolvency; the track and the rolling stock were in such a condition as to endanger the safety of the public.[5] The government found it necessary to put the road into working shape at an expense of $60,000. The surplus of the receipts, after the payment of the charges of operation and the deduction of 6 per cent. per annum on the total amount of the claims of the province, was to be handed over to the railway. It was further provided that the road might be sold on or after August 1, 1859, and it might be bought in by the province for a sum not exceeding the amount of its claim. The intention was that after the province had satisfied its claim the road should be transferred either to the company or to the bondholders. The government control of the road did not last long. An order-in-council was passed on May 12, 1859, to revest the railroad in the company, and an act annexing conditions was

[1] *Statutes of Canada*, 1856, chap. 21. [2] *Ibid.*, chap. 116.

[3] *Sessional Papers of Canada*, 1868, No. 61.

[4] Appendix No. 6 to the *Journals of the Legislative Assembly*, 1857.

[5] *Scrap Book Debates*, Colonist Collection, April 19, 1859, speech of Hon. A. T. Galt.

also passed.[1] In addition to the main advance of £475,000 the government had advanced during the summer of 1856 £10,000, and had also expended $60,000 in putting the road into shape.[2] By 1859 the minor loans had been repaid. The road was required to hand over to the receiver general £50,000 of second preference bonds to cover the arrearages of interest.[3] The interest on the government loan was postponed till after the payment of the interest on £500,000 first and second preference bonds. This practically formed the capital of the road since it was in the hands of the bondholders.[4] An advance of £770,000 had been made to the Great Western.[5] Up to July 1859 interest was paid regularly, and during this year the principal sum was reduced by one fourth.[6] In 1860 the company was relieved from payment of interest on the loan for three years dating from 1859.[7]

It was claimed with justice by the Great Western and the Northern that the government singled the Grand Trunk out for especially favorable treatment. Not only did the government aid the railway in the ways already indicated; it permitted the provincial lien to be further postponed by the issue on two occasions subsequent to this of bonds which were made a charge prior to the government lien.[8] Although we are running somewhat beyond this period, it may be noticed that the constant assistance granted to the Grand Trunk induced the Great Western to ask, in 1868, that it should be treated in the same way as the former railway.[9] This was refused.

[1] *Statutes of Canada*, 1860, chap. 105.

[2] This confusion of pounds, shillings and pence, and dollars and cents appears in the documents.

[3] By this time these amounted to upwards of $400,000. Galt's speech, *loc. cit.*

[4] Cf. *Sessional Papers of Canada*, 1868, No. 61. Up to 1875 no step was taken by the company to discharge its indebtedness to the government. In this year the government declared its readiness to accept £100,000 in settlement of the debt, *Statutes of Canada*, 1875, chap. 23. The obligation was finally discharged in 1877.

[5] *Sessional Papers of Canada*, 1868, No. 61. [6] *Ibid.* [7] *Ibid.*

[8] In 1862 the railway was allowed to issue £500,000 of second equipment bonds. A similar privilege was extended in 1867.

[9] Case of the Great Western before the Privy Council April 8, 1868. *Sessional Papers of Canada*, 1868, No. 61.

The constant calls for aid on the government by the Grand Trunk illustrate the feeling of the English investor—that in some way the Canadian government was responsible for its success. The presence of the names of six members of the government in the prospectus was construed as an official pledge.[1] The presence of the government directors on the board was also taken as an evidence of this responsibility. It is perhaps to this that we should attribute the almost pathetic faith in the value of Grand Trunk stocks which has at times existed in England. At times a testator has handed down such stocks as one of the most stable forms of legacy. In 1861 a petition was presented to the legislature by some shareholders and bondholders of the company stating the evil condition of the company's finances.[2] It was claimed that two thirds of the money obtained under the government loan had been expended on works which, while of benefit to the country, gave no adequate return to the company. Further aid was asked for on the ground that a moral obligation existed. It was unfortunate indeed that the roseate pictures of the prospectus of 1853 had induced unwary investors to take stock in the Grand Trunk under the impression that the government had made itself responsible for the success of the enterprise. It was undoubtedly not the intention of the government to pledge the country's credit to support the enterprise. It had found that the capital necessary for railway construction could not be obtained in Canada. To paraphrase the words of Hincks, Canada had to obtain capital elsewhere or go without railways.[3] Once the enterprise was under way it declared that its interests were inseparably connected with those of Canada.[1] When time of need came it did

[1] Cf. London *Economist*, October 13, 1860. Of the provisional directors of the company in Canada, the Hon. Mr. Ross was solicitor general for Upper Canada, Hon. Mr. Hincks was inspector general, Hon. Mr. Taché was receiver general, Hon. Mr. Morris, postmaster general, Hon. Malcolm Cameron, president of the executive council, and Hon. Mr. Caron, speaker of the legislative council.

[2] See a letter from the Hon. W. Napier, representing the English shareholders, to Hon. W. Cayley, the Inspector General, p. 7 of the letter. See also the Grand Trunk report for this year.

[3] HINCKS, *op. cit.*, p. 220.

all that could be expected of it. But at the same time the government was not altogether blameless. It took no step to correct the misapprehension created by the presence, in the prospectus of 1853, of the names of so many of the leading members of the Canadian government. The fact that a government has not made sufficiently clear the relation it occupies to the transportation enterprises it undertakes to assist has not only at this time, but at a later period, reacted disastrously upon the credit of the country.

Almost all of the money advanced to these railways constituted a gift rather than an advance; and this represents in part the price paid by the province for the railway development of this period. A summary of the railway indebtedness to the government for advances made may be obtained from the following table:[2]

Name of Railway Co.	Loans Debenture Account	Interest Account	Special Interest Account	Total Debt
Grand Trunk	$15,142,633.34	$10,457,458.01	$ 7,302.18	$25,6c7,393.53
Gt. Western -	2,810,502.00	1,130,747.50	....	3,941,247.50
Northern - -	2,311.606.67	1,433,760.23	30,976.70	3,776,403.60
	$20,264,806.01	$13,021,960.74	$ 38,778.88	$33,325,044.63

The railway development of this early period, as directly aided by the provincial government, thus cost the country upwards of 30 million dollars at a time when this represented a much larger contribution on the part of the province than it would at present.[3]

[1] Speech from the Throne at the close of the session of 1857.

[2] The data here placed in summarized form will be found in *Sessional Papers of Canada*, 1868, No. 61.

[3] The Grand Trunk still remains a debtor to Canada for the principal sum. By an act passed in 1884 the governmental claim was placed after the common stock and securities of the company. No interest has been charged against the company since confederation; see statement of Hon. Mr. Fielding, *Commons Debates*, 1900, p. 5062, in answer to a question by Mr. Morin. In 1868 the government agreed to accept $3,321,333 (£668,811 7 *s.*) in settlement of the claim against the Great Western, a reduction of $876,000, on condition that the money should be paid in annual installments with interest at 4 per cent. This proposition was accepted by the railway. Five million dollars of 5 per cent. preference stock were issued to raise the necessary funds. This was disposed of at 88.— See TROUT, *op. cit.* p. 93.

The operation of the complementary phase of the government's subsidy policy has yet to be studied. The Municipal Loan Fund, although it was intended simply to elicit local interest and assistance in railway construction, involved the central government, and this notwithstanding the fact the government insisted that it was in no way responsible for the loans raised on the security of the municipal resources.

Attention has already been drawn to the more conservative attitude manifested in Lower Canada. It was not until 1854 that the provisions of the Municipal Loan Fund Act were extended to that province.[1] The evils flowing from a policy of permitting the municipalities to have too great latitude in borrowing were already apparent; the fund was now limited to 1.5 million pounds for each section of the province; it was also provided that no municipality might pass a by-law to raise an amount exceeding 20 per cent. of its assessed valuation. The local governing bodies of Upper Canada took reckless advantage of the opportunities afforded by the act. They considered that the investments in railway enterprise would be immensely profitable; and so they were not concerned about the prospect of having to pay interest on the loans.[2] One village incurred a debt of $300 per capita. Other examples which show the tendency of the time may also be quoted; Port Hope, which had a population of 2500, subscribed $250,000 to a railway, a subscription which entailed an annual tax of $10 per capita. Three small towns, Brockville, Port Hope, and Cobourg, whose aggregate population was not in excess of 12,000, made loans to railways which aggregated $1,220,000.[3] Lavish assistance was granted to roads which were competing for lean traffic. Toronto subscribed $500,000 to the Toronto and Guelph and $250,000 to the Simcoe and Huron;[4] stock to the amount of $400,000 was subscribed for in the Grand Trunk, and in addition further aid was extended to this railway to the extent of $229,707. The counties

[1] *Statutes of Canada*, 1854, chap. 13.

[2] HINCKS, *op. cit.*, p. 314.

[3] Cf. KEEFER, *op. cit.*, p. 36, and *Statistical Year Book of Canada*, § 372.

[4] KEEFER, *op. cit*, *ibid.*

of Lanark and Renfrew subscribed $800,000 to the Canada Central; the township of Elizabethtown subscribed $150,000 to the same road.[1] It was supposed that the road would pay the interest from the first and recoup the principal in twenty years. The feeling of the time was that though taxation for railway purposes involved an apparent sacrifice, it was in every sense a highly profitable investment.[2]

The safeguards, which the early acts contained, soon proved to have but small value. While the municipal by-law was not valid until approved by the government, the application of this check was, in the exigencies of politics, an invidious task ofttimes attended by political disadvantage. It was openly asserted that the government of the day obtained political support for itself by granting or withholding, as it saw fit, permission to take advantage of the Loan Fund.[3] When the pinch of hard times came the municipalities, which had made lavish grants of aid to railways as well as to various local improvement companies, fell behind in their payment of interest to the government. Legislation was passed to meet this; it was provided that in such a case the government might cause a rate of not less than 2*s.* 6*d.* in the pound to be levied on the assessed valuation of the municipality in default; this was to be levied by the sheriff of the county; in default of this the government might direct the seizure of sufficient property.[4] The enforcement of this legislation was difficult and unwelcome, and the government shrank from it. It is possible that if this power had been exercised as soon as the defaulting began, the fund might have been kept on a solvent basis. But in the desire to abstain from alienating political support, the government let matters drift.[5] In after years Hincks, while expressing the opinion that under favorable circumstances the Loan Fund would have worked satisfactorily, and would have obtained money at 4 per cent. for the

[1] See appendix No. 70 to the *Report of the Commissioner of Public Works of Canada for 1867.*

[2] Cf. KEEFER.

[3] Cf. *Eighty Years of Progress*, p. 314.

[4] *Statutes of Canada*, 1857, chap. 20.

[5] Cf. *Eighty Years of Progress*, p. 217.

municipalities, admitted that it was a mistake to impose on the government the very obnoxious duty of compelling the municipalities to pay their debts.[1]

The difficulties of the Loan Fund were further aggravated by the bad harvest of 1858 and the unsatisfactory harvest of 1859. The government now found it necessary to come to the assistance of the fund and make advances to enable it to meet the interest due to the bondholders.[2] But the easy downward process did not stop here. It had been specifically stated that the government was in no way responsible for the fund. But the intermediary position occupied by it had given rise to the opinion, on the part of the investing public, that the government was responsible. There were not wanting unscrupulous brokers who advertised that the government was responsible for the bonds. The government soon found it necessary to make another modification. When the Loan Fund was created Hincks had expected that the bonds so created would be used as a basis for note circulation under the free banking system. The credit of the bonds would have been thereby enhanced.[3] This expectation was not realized; the bonds depreciated and were not readily negotiable. The government now decided to issue a permanent 4½ per cent. stock, the proceeds of which were to be applied to the acquisition of the Loan Fund bonds at public sale. It was hoped that this, by lessening the supply in the market would raise the price. It was, however, explicitly stated that all the obligations of the fund accruing under the earlier acts still existed.[4] In the following year, 1859, this act was amended by the insertion of the provision that the government bonds might be exchanged directly for the bonds issued on the security of the Loan Fund.[5] As early as 1857, when the first difficulties of the fund began, a motion was introduced to close the fund. This

[1] HINCKS, *op cit.*, p. 314.

[2] Cf. GALT, *Canada, 1849 to 1859*, p. 34.

[3] Speech of Hon. Mr. Cayley on Customs and Excise, *Scrap Book Debates*, 1858, p. 125.

[4] *Statutes of Canada*, 1858, chap. 84.

[5] *Statutes of Canada*, 1859, chap. 14.

was negatived.[1] This advice was, however, accepted in 1859, when it was decided to close the fund. To secure the government claims each municipality that had raised money on the credit of the fund was required to pay in 5 cents on the dollar of the assessed valuation until the principal and interest were extinguished. The receiver general was to charge 6 per cent. on all money paid by him for any municipality either as principal or as interest.

The elaborate provisions for repayment by the municipalities proved unavailing, and the government had to pass legislation sanctioning the assumption by the province of local bonds issued on the credit of the Municipal Loan Fund to the extent of $12,312,666.[2] The cautious temperament manifested by Lower Canada has more than once been referred to in the course of this essay. This is again shown in connection with the moneys expended from the fund. A difference of application at once strikes the eye; in Lower Canada local improvements are preferred to railways. Issues from the fund to the amount of 7.3 million dollars were received by Upper Canada. Of the total sum so received $5,867,400 had been expended on railways, while the remainder had been expended on local improvements.[3] In Lower Canada, out of a total of $2,428,540 issued from the fund, $955,540 had been expended on railways, while the remainder had been expended on local improvements. In round numbers a debt of ten million dollars was incurred by the municipalities, three fourths of which was expended on railway construction. When this was assumed by the government there were also arrearages of interest amounting in the case of Upper Canada to $2,673,468.[4] In addition to the advances made on

[1] The motion was made by Hon. Mr. Mackenzie and seconded by Hon. Mr. Munro, *Journals of the Legislative Assembly of Canada 1857*, p. 609.

[2] *Consolidated Statutes of Canada*, chap. 83; see also *Sessional Papers of Canada*, 1868, No. 61. The figure mentioned in the act is £3,000,000 currency; £10 currency were equal to £8 4½*d.* sterling.

[3] See *Sessional Papers of Canada*, 1863, No. 39; see also *Sessional Papers of Canada*, 1867–8, No. 61; and *Sessional Papers of Canada 1867* to No. 8, appendix 70.

[4] *Sessional Papers of Canada*, 1863, No. 39.

the security of the Municipal Loan Fund, advances had been made by municipalities in virtue of their powers under the municipal act. These amounted to about three million dollars more.[1]

The general subsidy policy of this time entailed an expenditure of nearly 50 million dollars, almost all of which had in the last resort to be borne by the central government. In return for this expenditure the country could point to a railway system which had increased from 54 miles in 1847 to 1901 in 1859.[2]

IV. A PERIOD OF REST, 1859–1867.

In the endeavor to obtain an improved transportation system the resources of the country had been seriously hampered. In 1859, of the total debt of $39,888,446, more than one half had been incurred by Canada on account of advances made to railway enterprises.[3] The difficulties of the time necessitated an increase in the tariff in 1859.[4] The expenditures continued to increase. By 1863 the debt had been increased to $67,263,205; at the same time the expenditure exceeded the revenue by about one million dollars annually.[5] The transportation system, which had been obtained at such a sacrifice on the part of the government, was so far in advance of the country's actual needs that a period of rest was necessary before the country could grow up to the railway system. Only 36 miles of railway were constructed during this period. Up to June 1853, fifty-six charters had been granted. The two great railways, the Grand Trunk and the Great Western, had by amalgamations and leasings incorporated in their respective systems a considerable number of the lines which had been constructed under the charters granted during the earlier period. There were in existence

[1] Cf. *Eighty Years of Progress*, p. 215.

[2] The total figure for all the provinces in the year in question; but from this must be deducted the 93 miles of railroad which had been constructed in Nova Scotia.

[3] Cf. GALT, *op cit.*, p. 33.

[4] Cf. my essay on the *Tariff History of Canada*, p. 9.

[5] Cf. *Financial and Commercial Chronicle*, July 29, 1865; see also *Canada, its Defenses, Conditions, and Resources*, by W. H. RUSSELL, Boston, 1865.

sixteen railways in all; the bulk of the railway mileage, however, was included in the systems of the Grand Trunk and the Great Western.

The scanty railway legislation of the period is a reflex of the conditions of the time. The charters for the incorporation of new companies were few in number ; the acts passed had to do for the most part with reorganizations, rearrangements, or amalgamations of the companies already in existence. The difficulties begotten of the earlier speculative period still continued. The Grand Trunk looked again to the government claiming that it was under a moral obligation to render assistance. By consenting, in 1862, to allow the railway to issue £500,000 of equipment bonds the government still further postponed the provincial lien.[1] This was permitted because the railway had fallen behind in its payments of rent for leased roads ; at the same time there was a large outstanding floating debt both in Canada and in England. The arrears of interest had accumulated for a time and had then been capitalized. The government did not limit their aid to the railway to that permitted by formal act of Parliament. In 1859 the Cartier-Macdonald ministry made an advance to redeem certain bonds of the Atlantic and St. Lawrence Railway. This was a covert way of aiding the Grand Trunk; in addition to this the consent of Parliament had not been obtained.[2] When the railway found itself unable to pay its men the government loaned it $120,000 for this purpose.[3] Further aid was extended to the company during the year 1860–1 in the shape of temporary advances aggregating $1,274,830. These advances were made without the sanction of Parliament having been obtained; a motion of censure on the government for its action in the matter was, however, voted down.[4]

[1] *Statutes of Canada*, 1862, chap. 66.

[2] Cf. DENT, *The Last Forty Years of Canada*, p. 438.

[3] *Sessional Papers of Canada*, 1861, No. 11. See also a petition presented to the legislature by some shareholders and bondholders of the Grand Trunk stating the evil condition of the company's finances.—*Journal of the Legislative Assembly of Canada, 1861*, p. 22.

[4] *Sessional Papers of Canada*, 1862, p. 226.

The Grand Trunk was not alone in its difficulties. A brief résumé of the legislation will give some idea of the conditions which obtained. By 1862 the Montreal and Champlain was in such a condition that it had to be permitted to issue $520,000 of preferred stock to meet its liabilities.[1] In 1864 this road was leased to the Grand Trunk.[2] In 1862 the Brockville and Ottawa was permitted to issue preference stock to meet its liabilities.[3] In the following year this road, which had for a long time been unable to meet the interest on its bonds, applied for permission to issue more preference stock.[4] In 1865 the time for construction was extended.[5] The Port Hope, Lindsay and Beaverton, which had for a long time been unable to pay interest on its bonds, was reorganized in 1864.[6] The charter of the Peterboro and Chemung Lake Railway lapsed when only a part of the road had been constructed. In 1866 it was sold to the highest bidder and the time for its completion was extended to five years.[7] In 1866 the Buffalo and Huron was allowed to capitalize the arrears of dividend on its preference stock; a 5 per cent. preference stock was issued.[8] The Grenville and Carillon, which had fallen into difficulties, was sold at auction in 1859.[9] In 1862 the transfer of the Brockville and Ottawa to a new company was authorized.[10] In 1863 provision was made for the incorporation of the Hamilton and Dover into the system of the Buffalo and Lake Huron.[11]

The most important general act passed during this period was that of 1861 which amended the general railway act. This

[1] *Statutes of Canada*, 1862, chap. 57.

[2] *Statutes of Canada*, 1865, chap. 85. The Montreal and Champlain was leased to the Grand Trunk for twenty-one years. One fifteenth of the net profits was to go to the former and the remainder to the latter. The Grand Trunk guaranteed that for each of the half years during the period 1864–1866 the one fifteenth should be equal to a minimum rent of $50,000.

[3] *Ibid.*, chap. 60.

[4] *Ibid.*, 1863, chap. 57.

[5] *Ibid.*, 1865, chap. 83.

[6] *Statutes of Canada*, 1864, chap. 76.

[7] *Ibid.*, 1866, chap. 98.

[8] *Ibid.*, chap. 93.

[9] *Ibid.*, 1859, chap. 96.

[10] *Ibid.*, 1862, chap. 60.

[11] *Statutes of Canada*, 1863, chap. 16.

provided that railway companies should afford every facility for the forwarding of traffic without preference or favor. Any agreements in contravention of this were to be void; each offense against the act was punishable by a fine of $50, together with the payment of the damages actually incurred.[1]

The provision for government assumption, on defined terms, which had dropped out of view for so long a time, appears once more in 1866. On giving four months' notice the government might, by paying the amount expended by the company, together with 6 per cent. thereon and 10 per cent. additional on the total sum, together with the liabilities which had been incurred, assume ownership of the railway.[2] The old proviso against the exercise of banking privileges by the railways had passed away with the conditions which had called it into existence. There now appears what may be called the "bank note" provision. In general form it is that the company in question may become a party to promissory notes, but that this power is not to be construed as permitting the company to issue notes which may be used as money.[3]

V. RAILWAY DEVELOPMENT AND POLICY OF THE MARITIME PROVINCES.

When the maritime provinces saw that their hopes of obtaining a connection with the other colonies were rendered futile, not only by dissensions among themselves, but also on account of the somewhat shifting policy of the imperial authorities, they turned their attention to questions of local development. When the intercolonial project was found to be for the time being impracticable attention was turned once more to projects for obtaining a connection with the developing railway system of the eastern states.

At an earlier time the eastern states themselves had turned their attention to the benefit to be obtained from obtaining a connection with the provinces. As early as 1843 a proposition

[1] *Statutes of Canada*, 1861, chap. 17.

[2] *Ibid.*, 1866, chap. 100.

[3] *Ibid.*, 1864, chap 90; 1866, chap. 101.

had been made for the construction of a railway which should have for its eastern terminus Halifax and for its western terminus Montreal.[1] A line of railway was to be constructed through Maine, New Brunswick, and Nova Scotia; from the terminus in Nova Scotia a line of steamers was to run direct to Galway, Ireland; it was hoped that the passage from New York to London might be made in seven or even in six days.[2] The more ambitious phase of this project was quiescent for some time owing to the fact that Maine was busied in the construction of the Atlantic and St. Lawrence which gave a connection with Montreal. The feeling of interest in the project had, however, spread to the maritime provinces. When, in 1848, a line of railway was projected to connect St. Johns, on the Bay of Fundy with Shediac on the Gulf of St. Lawrence, a grant of $4000 was made by the province of New Brunswick to carry on the preliminary survey. In the following year it was proposed that the province should take $600,000 of stock in this railway and also guarantee 6 per cent. on a sum of 12 million dollars. This proposition passed the legislature, but was rejected by the council.[3] In 1850 a petition had been presented to the legislature of Maine drawing attention to the advantages of the proposed international railway and asking that the line should be surveyed at the expense of the state.[4] This helped to revive the interest in the project in New Brnnswick. Poor, who had been throughout the prime mover on the American side, was instrumental in having a circular issued calling a convention of representatives of the New England states and of the British North American colonies to meet at Portland to discuss the matter.

[1] This suggestion was made by John A. Poor. See *First International Railway*, p. 27.

[2] *Ibid.*, p. 64. It was intended that the steam vessels should be used for passenger service only. Merchandise, it was assumed, would be conveyed on sailing vessels owing to the fact that transport by sail would be so much cheaper.

[3] TROUT, *op. cit.*, pp. 120–121.

[4] POOR, *op. cit.*, pp. 156–170. The state granted $5000 for this purpose. The state legislature ordered 500 copies of the petition to be printed for its own use. The text of the petition will be found in POOR, *op. cit.*, pp. 156–170.

The circular indicated the commercial advantages of such a trunk-line communication. The social and humanizing influences were also adverted to; and the conviction was expressed that it would "tend to allay national prejudice, harmonize national differences, contribute to advance the highest interest of humanity and promote the welfare of the race."[1] It was stated that a liberal grant of land and an exercise of the advantages of the public credit, on the part of New Brunswick, Nova Scotia, and Canada, similar to that offered in the case of the Halifax and Quebec, together with the compensation received for the carriage of the English and of the American mails would tend to attract private capital in sufficient amount to ensure the completion of the undertaking.[2] If, at first glance, the reason for expecting aid from Canada is not patent, it must be remembered that by means of the Atlantic and St. Lawrence Railway Canada had a connection with Maine. The railway system of Canada would, therefore, form an integral portion of the projected system.

The convention which met pursuant to this circular was rather a speech-making gathering than a meeting of sober-minded railway projectors.[3] But here and there, amid the salvos of choice, rounded phrases, the quotations from the Latin poets, and the after-dinner protestations of undying friendship, one or two suggestions savoring of the practical were advanced. The road it was estimated would cost 12 million dollars; no practical propositions were made with reference to the way in which the money was to be raised. The convention, however, served to concentrate the attention of the maritime provinces on the project. The survey, which had been authorized by the Maine legislature, was undertaken in 1851. It was estimated that the road would be 420 miles in length; of this distance 96 miles were to be in Maine, 200 in New Brunswick, and 124 in Nova Scotia.[4]

[1] *Ibid.*, p. 175. [2] *Ibid.*

[3] Cf. *The European and North American Railway* . . . ., published by order of the convention, Portland, 1850. This is the official report; see also in this connection some newspaper clippings cited in POOR, *op. cit.*, pp. 63–65.

[4] *Report on the Survey of the European and North American Railway Made Under the Authority of the State of Maine*, by A. C. MORTON, C. E., Portland, 1851, p. 51.

The genesis of this project having been indicated it is no longer necessary to follow the varying fortunes of the Maine section of the European and North American Railway.[1] Although Maine lost interest for the time being in the project, the railway policy of New Brunswick and of Nova Scotia became more and more tied up with the construction of such a railway. After the Portland convention had stated that the railway would cost 12 million dollars, Howe moved in the Nova Scotian legislature that the provincial revenues should be pledged for one half this sum. The endeavor to obtain the other half proved fruitless.[2] It was in this connection that an attempt was made to raise £800,000 on imperial credit to construct that portion of the road which would be common to both projected railways.[3] At the same time Howe, who during this period dominated the political situation, declared that it was his settled policy that that portion of the road which fell within the boundaries of Nova Scotia should be constructed as a government work.[4]

New Brunswick was the first to move in the matter. In 1851 a charter was granted to the European and North American Railway.[5] A facility bill was also passed to aid in the construction of this line, and the province was authorized to take stock in the enterprise to the amount of £250,000.[6] To protect the government interests there were to be government directors chosen on joint resolution of the legislative assembly and of the legislative council. The province also declared that as soon as the road expended £100,000 in construction a grant of crown lands to the extent of five miles on each side of the track would be made.[7] In 1852 it was declared that any dividends on the stock held by the government were to be applied to the payment of interest on the debentures issued to the company. The number of directors was fixed at thirteen; and of these six were to be

[1] For the later history of this project see POOR, *op. cit.*, pp. 67–71, and 79–87.

[2] HOWE, *Speeches and Letters*, vol. ii. p. 26.

[3] HOWE, *op. cit.*, p. 29. [4] *Ibid.*, p. 26.

[5] *Statutes of New Brunswick*, 1851, private acts, chap. 1.

[6] *Ibid.*, chap. 41. [7] *Ibid.*, chap. 42.

appointed by the ministry. Authority was given to make such an advance of provincial debentures to the railway as would, when added to the subscriptions of stock already mentioned, amount to £3000 per mile on the principal line, as well as the branches, of this road. Construction materials were to be admitted at the existing rate of duty; if the general scale of duties were raised there was to be a drawback equal to the amount of the increase.[1] In the same year the government entered into a contract with the English firm of Brassey, Betts & Jackson by which the contractors bound themselves to build a road from the boundary of Nova Scotia to that of Maine at a rate of $32,500 per mile. This contract was ratified at a special session of the legislature.[2]

Nova Scotia in 1852 adopted a minute of council which pledged the province to the construction of a comprehensive system of railways running east and west throughout the province.[3] The English railway contractors who were interested not only in the construction of the Grand Trunk but also in that of the European and North American tendered for the construction of the proposed system. Howe was of the opinion that Nova Scotia should be very careful in entering into any arrangements with these contractors since he thought that they had overreached both New Brunswick and Canada.

The Nova Scotian railway legislation of 1853 is contained in an interesting trio of acts. At first there was an intention to have the railways constructed as private works. A company, with an authorized capital of £1,750,000 which might be increased to £2,000,000, was incorporated to construct a railway from Halifax to the boundary of New Brunswick to connect with the projected European and North American Railway. The railway was also to have lateral lines to Pictou Harbor and to Windsor. The province was empowered to aid this enterprise to the extent of £3000 for each mile of main line and £2000 for each mile of

[1] *Ibid.*, 1852, chaps. 2 and 3.

[2] TROUT, *op. cit.*, p. 120; HOWE, *op. cit.*, p. 151.

[3] Cf. HOWE, *op. cit.*, p. 151.

branch line.[1] The company was also to be exempt from taxation by local bodies for five years. A 5 feet 6-inch gauge was specified. Maximum passenger rates were indicated; and preferences were forbidden. The government grant might be paid over either in money or in debentures; in repayment of this the company was to deliver to the government bonds for the repayment of this advance in twenty years with interest at 6 per cent. The government was to have a first lien on the railway and its equipment; no dividend was to be declared as long as any part of the interest on this loan remained unpaid. A government engineer was to be appointed to supervise the work.[2] Another phase of policy soon manifested itself. The influence of Howe had ever been in favor of government ownership. For a time the exigencies of existing conditions favored private ownership, but the pendulum soon swung in the opposite direction. In the same year it was explicitly stated that the proposed roads should be undertaken as public provincial roads. A board of five commissioners was appointed to supervise the construction of the roads; no member of the legislature was permitted to be connected with the roads in any capacity. Although the statement had been made that the roads were to be government works the province in reality looked to a combination of public and of private credit. It was provided that whenever the province was satisfied that contractors of sufficient skill had tendered for the construction of the roads at a figure not exceeding £4500 per mile the government might undertake to pay two thirds of the cost; £20,000 of the sum guaranteed was to be retained until the roads were completed. The counties through which the roads passed were to be responsible for the charges in connection with lands and fencing. The total liability which the province might incur was limited to £800,000; provision was made for raising this sum on the credit of the province.[3] Two

[1] This was to be paid in the proportion of £1 of government money for every £2 expended by the company.

[2] *Statutes of Nova Scotia*, 1853, chap. 1; Cf. also HOWE, *op. cit.*, pp. 151 *et seq.*

[3] 6 per cent. debentures having twenty-five years to run were to be issued.

thirds of the net revenue of the roads was to be applied to the payment of the interest on the debentures. The faith of the province was to be pledged for the repayment of the principal and interest of the debt.[1]

While in Nova Scotia government ownership was favored, in New Brunswick the policy adopted looked to private initiative aided to some extent by government subscription and subvention. Notwithstanding the altered conditions the latter province still retained interest in the St. Andrews and Quebec. The year which passed the facility bill for the construction of the European and North American Railway also granted aid to the Quebec and St. Andrews, stock being taken to the extent of £20,000.[2] The older custom of guaranteeing a minimum rate of profit was also recurred to. In the case of a projected railway from Shediac Harbor to the Bend of Petitcodiac the province guaranteed that it would pledge its faith, after the completion of the road, to make up any deficiency in an annual profit of 6 per cent. on £60,000 of the capital.[3]

The work of construction on the European and North American Railway, which was begun in 1853 and continued during the succeding year, was soon affected by the financial depression which had interrupted the railway activity of the upper provinces. The contractors found themselves unable to proceed with their engagements.[4] Meantime the railways of Nova Scotia had met with a similar fate, and in 1854 the contractors gave up the enterprise, nothing having been accomplished.[5]

The difficulties of the time accentuated the belief of Nova Scotia in the efficacy of government ownership. It was decided

[1] *Statutes of Nova Scotia*, 1853, chaps. 2 and 3. The preamble of chap. 2 is of interest in showing the reasons advanced in favor of the proposed railway — "whereas the construction and maintenance of a trunk line of railway from the harbor of Halifax to the frontier of New Brunswick with branch lines extending to the harbor of Pictou and the Victoria Beach will greatly facilitate the internal trade of Nova Scotia, developing her resources, enlarging her revenues and opening communication with the neighboring states and provinces."

[2] *Statutes of New Brunswick*, 1857, chap. 36.

[3] *Statutes of New Brunswick*, 1851, chap. 63.

[4] Cf. TROUT, *op. cit.*, p. 121.

[5] HOWE, *op. cit.*, p. 193.

that the construction and maintenance of a trunk line such as had been provided for in the acts already referred to was in the interest of the province. It was expected that in addition to obtaining a share in the trade of the New England states the trade of the Gulf of St. Lawrence would be tapped and that during the winter season the output of coal from the Albion mines[1] and other mines along the track would be handled by the railway. The lines were to be built as government works, and were to be under the supervision of a board of six commissioners. These were to be appointed by the government and were to hold office during pleasure. The roads were to be built by tender and contract, and none of the contractors or officers of the road were to be members of the legislature. The commissioners were required to furnish quarterly reports; power was given them to draw upon the receiver general for the moneys requisite for construction purposes; but their expenditure in any one year was limited to £200,000. A special act was passed empowering the province to raise on provincial debentures a sum not exceeding £200,000 in any one year.[2]

In New Brunswick the difficulties of the time still affected the railways. The contracting company which had been engaged in the construction of the European and North American gave up its contract in 1856. The province took over the work and paid the contractors £90,000 for the portion which had been completed.[3] Attention was now turned to government owner-

[1] The first railway constructed in Nova Scotia was intended to handle the output of these mines.

[2] *Statutes of Nova Scotia*, 1854, chaps. 1 and 2. Cf. HOWE, *op. cit.*, pp. 193 *et seq.* The general law authorizing the construction of government railways was from time to time amended. In 1855 an amendment was introduced to the effect that when less than £200,000 was borrowed in any one year the difference might be added to the borrowing of the next year, chap. 6 of the *Statutes* of that year. In the same year the commissioners were empowered to make regulations for the railways subject to the approval of the governor-in-council, chap. 28 of the *Statutes*. In 1857 the board of railway commissioners was cut down to a chairman and two commissioners. The former board had cost £1700 per annum and this expense was considered too large—chap. 27 of the *Statutes*.

[3] *Statutes of New Brunswick*, 1856, chap. 14. The province handed over £46,800 of 6 per cent. provincial bonds running thirty years. The balance of the sum mentioned in the text had already been paid over to the road. Cf. in this connection HOWE, *op. cit.*, p. 157, and TROUT, *op. cit.*, p. 121.

ship. It was determined that a railway from St. John to Shediac, another from St. John to the Maine boundary, with an extension to Woodstock, and a third to Miramichi should be constructed as government works. The provisions for the management of the proposed roads were influenced by the Nova Scotia legislation. A board of five commissioners, not more than one of which should hold a seat in the legislature,[1] was appointed. The provisions with reference to members of the legislature holding offices of profit under the commissioners and with reference to the borrowing powers granted are identical with those contained in the Nova Scotia act. A further provision was contained that a sum equal to 1½ per cent. interest on the total sum borrowed should be deducted from the profits of the railways; this, with the proceeds of the sales of the crown lands through which the roads passed, was to be paid into a sinking fund towards the extinction of the debt. In order to assist in providing interest on the loan an extra duty of 2½ per cent. was to be levied on imports.[2]

Nova Scotia in adopting its policy of government ownership recognized a qualified obligation on the part of the local governing bodies to render aid. The fact that Halifax was the terminus of the proposed railways was regarded as a justification for the requirement that it should subscribe £100,000 to the proposed enterprise.[3] A similar recognition of the municipal obligations in connection with railway enterprise appears in the provision of the general law that when it was found necessary to expropriate lands the county in which the lands lay was to be responsible for the damages. This was to be apportioned according to the relative benefits derived from the railway by the several sections of the county. The amount appraised on each county was to be paid in two yearly installments. In addition to this the county was to be responsible for the erection of fences along

[1] By an act of 1857, chap. 4, it was provided that the commissioners should no longer hold seats in either house.

[2] The legislation dealing with this topic will be found in *Statutes of New Brunswick*, 1856, chaps. 15, 16, 18.

[3] *Statutes of Nova Scotia*, 1851, chap. 3; 1853, chap. 3; 1854, chap. 2.

the track within its boundaries to the amount of £60 per mile.[1] It was found difficult to make the municipal bodies live up to these obligations. The financial stringency of 1857 affected all governmental bodies, and so it was found necessary in 1859 to postpone the payment of interest by Halifax for one year. In 1861 the city owed $78,000 of arrears of interest, and it was decided that the payment of this should be spread over a term of five years.[2]

It was not until 1865 the policy of relying upon municipal assistance was resorted to in New Brunswick. In this year the county of Carleton was empowered to make a loan to construct a branch railway from the St. Andrews and Quebec Railway to River St. John.[3] The town of Woodstock was empowered to take $20,000 of stock in the Woodstock Railway and to loan $20,000 more on the security of its bonds.[4] The city of St. John was empowered to assist the European and North Americau Railway to the amount of $110,000.[5] The city of Fredericton was permitted to aid the Fredericton Railway to the extent of of $50,000. This was to be secured by a second mortgage on the rolling stock and property of the company.[6] The county of York was also empowered to aid this railroad to the extent of $30,000; this also was to be secured by a second mortgage.[7] Changing conditions did not permit either province to be consistent in its railway policy. In 1865 Nova Scotia reverted to a policy of co-operation of private capital with government assistance. It was provided that two sections of road were to be constructed. On the first of these, from Windsor to Annapolis, the province agreed to grant a subsidy of 4 per cent. per annum for twenty years on a sum not exceeding $24,000 per mile to any contractor who would undertake the enterprise;

[1] *Revised Statutes of Nova Scotia*, general act, chap. 70, "of railways." A further recognition of the municipal relation to the railway appears in the provision that the court of sessions may order gates to be placed at the railway crossings.

[2] *Statutes*, 1858, chap. 11; 1853, chap. 27; 1861, chap. 40.

[3] *Statutes of New Brunswick*, chap. 59.

[4] *Ibid.*, 1866, chap. 17.

[5] *Ibid.*, 1867, chaps. 23 and 39.

[6] *Statutes, New Brunswick*, 1867, chap. 65.

[7] *Ibid.*, chap. 66.

in addition the province was to bear the cost of the construction of a bridge across the river Avon. In the case of the second section, that from Truro to the New Brunswick boundary, the province agreed to pay to the contractor a subsidy of not more than 4 per cent. per annum for twenty years on $40,000 per mile; in addition the government was to take stock in the enterprise to an amount not exceeding $400,000. In consideration of the aid granted the government was to have power to appoint two or more government directors.[1] The contract for the latter section of the road was made dependent on a simultaneous arrangement with New Brunswick for the continuation of this road from the frontier to the St. John and Shediac line. In 1865 a contract was awarded to an English contracting firm. Nothing, however, was accomplished.[2] In the following year Nova Scotia incorporated a private company to construct the Windsor to Annapolis section. The province agreed to pay a subsidy of £16,320 to the company in addition to building a bridge across the river Avon at an expense of £32,000.[3] In 1864 New Brunswick transferred the western section of the European and North American to a private company.[4] The same year saw a further change in the policy of this province. It was in this year that a definite subsidy policy was outlined. Designated roads forming a comprehensive system were to be subsidized to the extent of $10,000 per mile; this, however, was not a grant outright, since the return of the money so advanced was to be secured by a first mortgage.[5]

[1] *Statutes of Nova Scotia*, 1865, chap. 15.

[2] Cf. *Report of the Department of Public Works of Canada for 1869*, pp. 87, 89.

[3] *Statutes of Nova Scotia*, 1866, chap. 1.

[4] *Statutes of New Brunswick*, 1864, chap. 42.

[5] *Statutes of New Brunswick*, 1864, chap. 3. The lines subsidized were: (*a*) a main line from St. John to the State of Maine *via* the Douglas Valley; (*b*) a line from a point on the European and North American railway towards the United States; (*c*) an extension of the European and North American to Miramichi; (*d*) a branch to connect the European and North American with Fredericton; (*e*) a branch from Woodstock to connect with the Quebec and St. Andrews; (*f*) a branch from St. Stephens to connect with the Quebec and St. Andrews; (*g*) a branch to connect the European and North American with Hillsborough in Albert county.

Some detailed features of policy which were in the main common to both provinces have yet to be passed in review. Both provinces had provisions for government assumption on defined terms. In Nova Scotia, as in the upper provinces, there is a somewhat shifting policy. In 1853 it was provided that the government might take over the road after the expiration of twenty-one years, on the payment of twenty years' purchase of the annual profits, calculated on the basis of the average annual profits for the seven years preceding.[1] In 1865 the policy favored was that the government had a right to assume the road on the payment of a sum to be determined by arbitration.[2] In New Brunswick there was a right to assume the road at the expiration of twenty-one years, after three months' notice had been given, on the payment of twenty-five years' purchase of the profits of the preceding year.[3] As regards borrowing, the policy favored in New Brunswick was that a specific enabling act required to be passed.[4]

In Nova Scotia the recommendation of Gladstone, that one tenth of the capital should be paid up before construction work was begun, was followed.[5] In New Brunswick there was a lack of uniformity of practice. One charter required that 10 per cent. of the stock should be paid in before the expiration of three years, otherwise the charter would lapse;[6] another that one fifth of the stock should be paid in before operations began.[7] Toward the end of the period there was more uniformity in this regard.[8]

The Nova Scotian legislation stated explicitly that in the arrangement of tolls there were to be no preferences.[9] The tolls

[1] *Statutes of Nova Scotia*, 1853, chap. 1. If this average profit fell below 10 per cent., the matter was to be submitted to arbitration.

[2] *Ibid.*, 1865, chap. 13.

[3] *Statutes of New Brunswick*, 1852, chaps. 2 and 76. If, however, for seven years preceding the average rate of profits had been less than 15 per cent., the matter was to be submitted to arbitration.

[4] Cf. *ibid.*, 1866, chap. 16; 1867, chap. 33.

[5] Cf. *Statutes of Nova Scotia*, 1853, chap. 41; 1866, chap. 1.

[6] *Statutes of New Brunswick*, 1854, chap. 4.

[7] *Ibid.*, 1852, chap. 76.

[8] *E. g.*, 1864, chap. 57.

[9] *Statutes of Nova Scotia*, 1853, chap. 1; 1856, chap. 10; *Revised Statutes*, chap. 70.

had to be approved by the governor-in-council.[1] The earlier policy of New Brunswick was that the tolls should be in the discretion of the directors;[2] the legislature, however, retained the right to regulate the tolls when they were found to be yielding more than a 15 per cent. dividend. At a later date it was provided that there should be no preferences.[3] General provisions were contained in the legislation of both provinces that mails, troops, munitions of war, and government property should be carried at certain specified rates.[4]

It will be seen that the experiences of the maritime provinces were akin to those of the provinces further inland. Railway development was earnestly desired, but the uncertainties of railway construction in a new country placed many obstacles in the way of the attainment of the desired development. The attempt to follow out a definite policy broke down because of the exigencies of the time. In the end the railway policy of the maritime provinces was in the main a matter of opportunism. As a result of the varied activities which have been sketched, there were in these provinces, in 1867, 341 miles of railway. In New Brunswick, the European and North American, from St. John to Shediac, a distance of 108 miles, had been opened in 1869; while the St. Andrews and Quebec, a distance of 88 miles, had been constructed from St. Andrews to Richmond by 1862. In Nova Scotia, the Halifax, Truro and Windsor, 93 miles in length, and the Truro and Pictou, which comprised 52 miles, were opened in 1858 and 1867 respectively.

SIMON J. MCLEAN.

UNIVERSITY OF ARKANSAS.

[1] *Ibid.*, 1853, chap. 41. The charter of the Windsor and Annapolis, 1866, contained a provision that its tolls were not to exceed those charged on the government railways.

[2] *Statutes of New Brunswick*, 1852, chap. 76, No. 36. The president and directors were required to file an annual report within fifteen days after the beginning of the session.

[3] *Ibid.*, 1864, chap. 57.

[4] Cf. *ibid.*, 1852, chap. 4; 1864, chap. 3; and *Statutes of Nova Scotia*, 1865, chap. 13.